



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF THE STATE BUDGET
LANSING

ROBERT L. EMERSON
DIRECTOR

December 28, 2009

Michigan State Senate
State Capitol
Lansing, Michigan 48909

Michigan House of Representatives
State Capitol
Lansing, Michigan 48909

Members of the Legislature:

Enclosed are preliminary unaudited financial statements of the General Fund and School Aid Fund for the fiscal year ended September 30, 2009, as required by Section 18.1493 of the Michigan Compiled Laws. Final, audited financial statements will be included in the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR), which is scheduled to be available in March 2010.

These preliminary unaudited financial statements report unreserved fund balance of \$176.7 million for the General Fund and reserved fund balance of \$229.1 million for the School Aid Stabilization Fund as of September 30, 2009.

For fiscal year 2008-2009, the preliminary net lapse of spending by State departments and agencies, described in Note 3, totals \$114.4 million. When combined with the legislative and judicial branches, net General Fund lapses for the state total \$114.6 million.

If you have questions regarding the enclosed report, please contact Mike Moody, Director, Office of Financial Management, at (517) 373-1010.

Sincerely,

A handwritten signature in cursive script, reading "Robert L. Emerson".

Robert Emerson
State Budget Director

**REPORT TO THE LEGISLATURE
GENERAL FUND AND SCHOOL AID FUND
UNAUDITED FINANCIAL STATEMENTS AND SCHEDULES
FISCAL YEAR ENDED SEPTEMBER 30, 2009**

Prepared by:

**STATE BUDGET OFFICE
Office of Financial Management**

December 28, 2009

REPORT TO THE LEGISLATURE
GENERAL FUND AND SCHOOL AID FUND
UNAUDITED FINANCIAL STATEMENTS AND SCHEDULES
FISCAL YEAR ENDED SEPTEMBER 30, 2009

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STATE OF MICHIGAN
GENERAL FUND
BALANCE SHEET
SEPTEMBER 30, 2009
(In Thousands)
(Unaudited)

ASSETS

Cash	\$ 7,537
Equity in Common Cash	-
Taxes, interest, and penalties receivable (after allowances for estimated uncollectibles of \$ 2,033,315)	2,319,689
Amounts due from other funds (Note 5)	613,154
Amounts due from federal agencies	1,321,311
Amounts due from local units	1,075,836
Inventories	17,548
Other assets	366,111
TOTAL ASSETS	<u>\$ 5,721,187</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Warrants outstanding	\$ 67,415
Accounts payable and other liabilities	1,871,760
Income tax refunds payable	822,675
Amounts due to other funds	65,249
Advances from component units	517,193
Deferred revenue	1,405,184
Total Liabilities	<u>4,749,476</u>

Fund Balances:

Reserves for:

Budgetary carry-forwards:

Encumbrances	47,733
Restricted revenues	447,553
Multi-year projects	36,108
Revolving loan programs	5,000
Noncurrent assets	258,596
Total Reserved	<u>794,990</u>
Unreserved (Note 3)	176,721

Total Fund Balances	<u>971,711</u>
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TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,721,187</u>
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The accompanying notes are an integral part of the financial statements and schedules.

STATE OF MICHIGAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FISCAL YEAR ENDED SEPTEMBER 30, 2009
(In Thousands)
(Unaudited)

REVENUES	
Taxes	\$ 11,258,195
From federal agencies	13,729,152
From local agencies	100,756
From services	285,049
From licenses and permits	297,662
Miscellaneous:	
Special Medicaid reimbursements	135,667
Other miscellaneous	765,999
Total Revenues	<u>26,572,481</u>
EXPENDITURES	
Current by Function:	
Conservation, environment, recreation, and agriculture	314,090
Education	2,077,730
Family Independence services	5,248,786
General government	1,215,743
Health services	12,375,507
Labor, commerce, and regulatory	931,716
Public safety and corrections	2,593,111
Tax expenditures (Note 4)	963,500
Intergovernmental: local revenue sharing grants	1,040,031
Capital outlay	23,294
Total Expenditures	<u>26,783,508</u>
Excess of Revenues over (under) Expenditures	<u>(211,027)</u>
OTHER FINANCING SOURCES (USES)	
Capital lease payments	-
Capital lease acquisitions	-
Proceeds from sale of capital assets	2,204
Transfers from other funds	271,696
Transfers to other funds	(382,137)
Total Other Financing Sources (Uses)	<u>(108,237)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(319,264)</u>
Fund Balances - Beginning of fiscal year (includes reserves)	<u>1,290,974</u>
Fund Balances - End of fiscal year (includes reserves)	<u>\$ 971,711</u>

The accompanying notes are an integral part of the financial statements and schedules.

STATE OF MICHIGAN
GENERAL FUND
SCHEDULE OF CHANGES IN UNRESERVED FUND BALANCE
FISCAL YEAR ENDED SEPTEMBER 30, 2009
(In Thousands)
(Unaudited)

UNRESERVED FUND BALANCE AT OCTOBER 1, 2008		\$	457,870
FINANCING PROVIDED			
Reserves at October 1, 2008	\$	833,104	
Revenue and other financing sources for 2008-09		<u>26,846,379</u>	<u>27,679,483</u>
TOTAL FINANCING			28,137,353
SPENDING AUTHORIZATIONS 2008-09			
Appropriations		8,492,230	
School Aid Fund subsidy		78,000	
Budgetary adjustments and transfers		320	
Restricted revenue authorizations		18,672,028	
Carried forward from 2007-08		<u>574,026</u>	
Gross spending authority 2008-09		27,816,604	
Lapsed appropriations		(116,148)	
Overexpended appropriations		1,581	
Reserved for long-term assets		<u>258,596</u>	<u>27,960,632</u>
UNRESERVED FUND BALANCE AT SEPTEMBER 30, 2009			<u>\$ 176,721</u>

The accompanying notes are an integral part of the financial statements and schedules.

STATE OF MICHIGAN
SCHOOL AID FUND
BALANCE SHEET
SEPTEMBER 30, 2009
(In Thousands)
(Unaudited)

ASSETS

Taxes, interest, and penalties receivable (after allowances for estimated uncollectibles of \$ 377,041)	\$ 2,082,278
Amounts due from federal agencies	53,942
Amounts due from local units	64,257
Other assets	179
TOTAL ASSETS	<u>\$ 2,200,655</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Warrants outstanding	\$ 940
Accounts payable	171,093
Amounts due to other funds (Note 5)	1,297,267
Deferred revenue	489,321
Total Liabilities	<u>1,958,622</u>
Fund Balances:	
Reserves for:	
Budgetary carry-forwards:	
Encumbrances	3,172
Restricted revenues	237,212
Noncurrent assets	1,650
Total Reserved	<u>242,034</u>
Unreserved	-
Total Fund Balances	<u>242,034</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,200,655</u>

The accompanying notes are an integral part of the financial statements and schedules.

STATE OF MICHIGAN
SCHOOL AID FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FISCAL YEAR ENDED SEPTEMBER 30, 2009
(In Thousands)
(Unaudited)

REVENUES

Taxes:

Sales	\$ 4,424,669
Use	428,119
Property and real estate transfer	2,165,941
Tobacco products	410,429
Personal income	1,895,402
Michigan Business tax	669,341
Miscellaneous taxes	203,759
From federal agencies	2,101,053
Miscellaneous	<u>37,954</u>

Total Revenues	<u>12,336,666</u>
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EXPENDITURES

Current:

Grants to or on behalf of school districts	<u>13,111,208</u>
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Total Expenditures	<u>13,111,208</u>
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Excess of Revenues over (under) Expenditures	<u>(774,542)</u>
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OTHER FINANCING SOURCES (USES)

Transfers from:

General Fund	76,511
State Lottery Fund	724,470

Transfers to:

School Loan Bond Redemption Fund	<u>(39,000)</u>
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Total Other Financing Sources (Uses)	<u>761,980</u>
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Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(12,562)
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Fund Balances - Beginning of fiscal year (includes reserves)	<u>254,595</u>
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Fund Balances - End of fiscal year (includes reserves)	<u>\$ 242,034</u>
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The accompanying notes are an integral part of the financial statements and schedules.

STATE OF MICHIGAN
SCHOOL AID FUND
SCHEDULE OF CHANGES IN UNRESERVED FUND BALANCE
FISCAL YEAR ENDED SEPTEMBER 30, 2009
(In Thousands)
(Unaudited)

UNRESERVED FUND BALANCE AT OCTOBER 1, 2008		\$	-
FINANCING PROVIDED			
Reserves at October 1, 2008	\$	254,595	
Revenue and other financing sources for 2008-09		<u>13,137,647</u>	<u>13,392,242</u>
TOTAL FINANCING			13,392,242
SPENDING AUTHORIZATIONS 2008-09			
Appropriations		11,080,595	
Budgetary adjustments and transfers		30,949	
Restricted revenue authorizations		2,094,518	
Carried forward from 2007-08		<u>250,387</u>	
Gross spending authority 2008-09		13,456,449	
Lapsed appropriations		(65,856)	
Reserve for long-term assets		<u>1,650</u>	<u>13,392,242</u>
UNRESERVED FUND BALANCE AT SEPTEMBER 30, 2009			<u>\$ -</u>

The accompanying notes are an integral part of the financial statements and schedules.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS AND SCHEDULES
 FISCAL YEAR ENDED SEPTEMBER 30, 2009
 (unaudited)

NOTE 1 – REPORTING ENTITY

These unaudited financial statements and schedules, required by Section 18.1493 of the Michigan Compiled Laws, report the financial position and results of operations of the State of Michigan's General Fund and School Aid Fund for the fiscal year ended September 30, 2009. These funds will be included in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*, which has not yet been issued.

The final amounts shown in the audited SOMCAFR may differ from the amounts shown in these unaudited financial statements and schedules due to final adjustments, audit results, and/or subsequent events. While the extent of the adjustments that may be made for the SOMCAFR cannot be accurately projected at this time, these statements were prepared using the best information currently available.

These footnotes relate directly to the General Fund and the School Aid Fund and do not include all disclosures required by generally accepted accounting principles (GAAP). All disclosures required by GAAP will be included in the SOMCAFR.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

These financial statements and schedules have been prepared using the modified accrual basis of accounting in accordance with GAAP applicable to general and special revenue funds.

Fund Balance Reservations

Fund balance reservations are used to segregate those funds that are legally restricted or not available for future appropriation. Such reservations include amounts for encumbrances, restricted revenues, multi-year project spending authority carry-overs, and reserves for noncurrent assets. The reserve for "multi-year projects" includes spending authority carried over to fund capital outlay and work projects.

Rounding

The amounts shown in these unaudited financial statements and schedules are reported in thousands and rounded. Therefore, columns and rows may not add to the totals presented.

NOTE 3 – BUDGETARY DISCLOSURES

General Fund Lapses and Overexpenditures

The following table summarizes line-item lapses and overexpenditures, by department, in the General Fund for the fiscal year ended September 30, 2009 (in thousands).

	Lapses	Overexpenditures	Net Lapses (Overexpenditures)
Legislative Branch	\$ 138	\$ -	\$ 138
Judicial Branch	14	-	14
Executive Branch:			
Agriculture	10	-	10
Attorney General	226	-	226
Civil Rights	288	-	288
Colleges and Universities	1,606	-	1,606
Community Health	61,101	-	61,101
Corrections	459	-	459
Education	1,560	-	1,560
Energy, Labor & Economic Growth	595	-	595
Environmental Quality	79	-	79
Executive Office	60	-	60
History, Arts & Libraries	97	-	97
Human Services	24,876	(1,581)	23,295
Management and Budget	2,086	-	2,086
Military and Veterans Affairs	510	-	510
Natural Resources	3	-	3
State	4,008	-	4,008
State Police	174	-	174
Transportation	-	-	-
Treasury	18,260	-	18,260
General Fund Total	<u>\$116,148</u>	<u>\$ (1,581)</u>	<u>\$ 114,567</u>

Constitutional Requirements

Revenue Limits: Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1979 in relation to calendar year 1977 personal income, is 9.49%. Final calculations determining the State's compliance with this Constitutional provision for fiscal year 2009 will not be completed until after the audited SOMCAFR is issued.

For fiscal year 2008, the most recent year for which final calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by \$4.7 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2009.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS AND SCHEDULES
FISCAL YEAR ENDED SEPTEMBER 30, 2009
(unaudited)

Legislation implementing the Constitutional provision provides that, if total State revenues exceed the limit by less than 1%, the excess may be transferred to the Counter-Cyclical Budget and Economic Stabilization Fund. If such an excess were to equal or exceed 1%, the implementing legislation requires that the entire excess be refunded to payers of the individual income and single business taxes in the fiscal year following the year that the excess was determined and reported.

Local Spending Requirements: Article 9, Section 30, of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1993, is 48.97%.

Final calculations establishing the State's compliance with this Constitutional provision for fiscal year 2009 will not be completed until after the audited SOMCAFR is issued. For fiscal year 2008, the most recent year for which final calculations are available, the proportion of total State spending paid to local units of government was determined to be 56.2%, reflecting payments that exceeded the minimum required by \$2.0 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2009.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund") was created by Public Act 76 of 1977 to assist in stabilizing revenue during periods of economic recession. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Funds can also be withdrawn when the State's unemployment rate exceeds 8% or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature.

The following table summarizes the preliminary results of transactions for the fund for fiscal year 2009 (in millions):

Beginning unreserved fund balance	\$ 2.2
Interest income	-
Transfers to General Fund	-
Ending unreserved fund balance	<u>\$ 2.2</u>

School Aid Fund Budgetary Provisions

The School Aid Fund receives State revenues restricted to local school programs, including constitutionally dedicated sales tax revenues; Lottery Fund earnings; and portions of the personal income, tobacco products, liquor, and industrial and commercial facilities taxes. In addition, all property tax (referred to as the "education tax"), is deposited directly to the School Aid Fund. School aid payments are made based upon a statutory formula.

The School Aid Stabilization Fund is a separate account within the School Aid Fund. Any unexpended or unencumbered state school aid fund revenue is deposited into this fund at the end of each fiscal year. The amounts accumulated in this fund are carried forward and shall be expended only for purposes for which state school aid money may be expended. The School Aid Stabilization Fund ending reserved fund balance is \$229.1 million for fiscal year 2009.

NOTE 4 – TAX EXPENDITURES

Tax expenditures are reported for those individual income tax credits which are paid even if they exceed the individual's tax liability. The State considers these refundable tax credits to be grant payments administered using the State's income tax system as a filing and payment mechanism. Total tax expenditures in fiscal year 2009 were \$963.5 million, the largest components of which were \$523.0 million for the General Homestead Property Tax Credit and \$349.8 million for the Senior Citizens Property Tax Credit.

NOTE 5 – FINANCIAL STATEMENT PRESENTATION OF CASH DEFICITS

The year-end cash deficit in the School Aid Fund is reclassified as a liability (\$1.3 billion at September 30, 2009), to the General Fund and the Special Revenue Funds that are providing common cash borrowing at fiscal year-end. These reclassification entries are made only at year-end for reporting purposes and do not impact the amount of interest distributed (or paid) by the respective funds.

NOTE 6 – CONTINGENCIES

The State is party to various legal proceedings seeking damages or judgments against the State. Also, federally funded programs are subject to audits which could result in future repayments of recognized revenues. The ultimate disposition of such contingencies cannot presently be determined; however, in some cases estimated amounts have been recorded. Before the final SOMCAFR is issued, some of the amounts recorded as estimated liabilities will change because improved estimates are available or the status of a contingency has changed.